

LAKE VILLAGE WATER ASSOCIATION, INC.

AUDIT OF FINANCIAL STATEMENTS

---

DECEMBER 31, 2009

CRAIG A. BUTLER

CERTIFIED PUBLIC ACCOUNTANT

DANVILLE, KENTUCKY

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**INDEPENDENT AUDITOR'S REPORT**

CHAIRMAN AND COMMISSIONERS  
LAKE VILLAGE WATER ASSOCIATION, INC.  
BURGIN, KENTUCKY 40310

I HAVE AUDITED THE ACCOMPANYING STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY OF LAKE VILLAGE WATER ASSOCIATION, INC. AS OF DECEMBER 31, 2009, AND THE RELATED STATEMENTS OF OPERATIONS, EQUITY, OPERATING EXPENSES, AND CASH FLOWS FOR THE YEAR THEN ENDED. THESE FINANCIAL STATEMENTS ARE THE RESPONSIBILITY OF THE ASSOCIATION'S MANAGEMENT. MY RESPONSIBILITY IS TO EXPRESS AN OPINION ON THESE FINANCIAL STATEMENTS BASED ON MY AUDIT.

I HAVE CONDUCTED MY AUDIT IN ACCORDANCE WITH AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, AND THE STANDARDS APPLICABLE TO FINANCIAL AUDITS CONTAINED IN *GOVERNMENT AUDITING STANDARDS*, ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES. THOSE STANDARDS REQUIRE THAT I PLAN AND PERFORM THE AUDIT TO OBTAIN REASONABLE ASSURANCE ABOUT WHETHER THE FINANCIAL STATEMENTS ARE FREE OF MATERIAL MISSTATEMENT. AN AUDIT INCLUDES EXAMINING, ON A TEST BASIS, EVIDENCE SUPPORTING THE AMOUNTS AND DISCLOSURES IN THE FINANCIAL STATEMENTS. AN AUDIT ALSO INCLUDES ASSESSING THE ACCOUNTING PRINCIPLES USED AND SIGNIFICANT ESTIMATES MADE BY MANAGEMENT, AS WELL AS EVALUATING THE OVERALL FINANCIAL STATEMENT PRESENTATION. I BELIEVE THAT MY AUDIT PROVIDES A REASONABLE BASIS FOR MY OPINION.

IN MY OPINION, THE FINANCIAL STATEMENTS REFERRED TO ABOVE PRESENT FAIRLY, IN ALL MATERIAL RESPECTS, THE ASSETS, LIABILITIES, AND MEMBERS' EQUITY OF LAKE VILLAGE WATER ASSOCIATION, INC. AS OF DECEMBER 31, 2009, AND THE RESULTS OF ITS OPERATIONS, CASH FLOWS, AND OPERATING EXPENSES FOR THE YEAR THEN ENDED IN CONFORMITY WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA.

**INDEPENDENT AUDITOR'S REPORT CONTINUED**

IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, I HAVE ALSO ISSUED MY REPORT DATED MARCH 22, 2010, ON MY CONSIDERATION OF THE ASSOCIATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING AND MY TESTS OF COMPLIANCE WITH CERTAIN PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, GRANT AGREEMENTS, AND OTHER MATTERS. THE PURPOSE OF THAT REPORT IS TO DESCRIBE THE SCOPE OF MY TESTING OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND THE RESULTS OF THAT TESTING, AND NOT TO PROVIDE AN OPINION ON THE INTERNAL CONTROL OVER FINANCIAL REPORTING OR ON COMPLIANCE. THAT REPORT IS AN INTEGRAL PART OF AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND SHOULD BE CONSIDERED IN ASSESSING THE RESULTS OF MY AUDIT.

MY AUDIT WAS CONDUCTED FOR THE PURPOSE OF FORMING AN OPINION ON THE FINANCIAL STATEMENTS OF THE LAKE VILLAGE WATER ASSOCIATION, INC. THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS ON PAGE 15 IS PRESENTED FOR THE PURPOSE OF ADDITIONAL ANALYSIS AND IS NOT A REQUIRED PART OF THE BASIC FINANCIAL STATEMENTS. THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS HAS BEEN SUBJECTED TO THE AUDITING PROCEDURES APPLIED IN THE AUDIT OF THE BASIC FINANCIAL STATEMENTS AND, IN MY OPINION, IS FAIRLY STATED, IN ALL MATERIAL RESPECTS, IN RELATION TO THE BASIC FINANCIAL STATEMENTS TAKEN AS A WHOLE.

*Craig A. Butler, CPA*

CRAIG A. BUTLER  
CERTIFIED PUBLIC ACCOUNTANT

DANVILLE, KENTUCKY  
MARCH 22, 2010

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY  
DECEMBER 31, 2009  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008)

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
CASH (NOTE 3)	\$ 156,192	\$ 228,292
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE)	102,911	97,980
DUE FROM OTHER GOVERNMENT	28,845	-
INVENTORY (NOTE 2)	18,625	15,403
PREPAID EXPENSES (NOTE 2)	<u>21,248</u>	<u>24,692</u>
 TOTAL CURRENT ASSETS	 327,821	 366,367
RESTRICTED ASSETS:		
CASH (NOTE 3)	241,544	295,981
PROPERTY & EQUIPMENT, NET (NOTE 2 AND 4)	<u>5,381,346</u>	<u>4,302,582</u>
 TOTAL ASSETS	 <u>\$ 5,950,711</u>	 <u>\$ 4,964,930</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF ASSETS, LIABILITIES, AND MEMBERS' EQUITY  
DECEMBER 31, 2009  
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008)

<u>LIABILITIES &amp; EQUITY</u>	<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES:</b>		
CURRENT PORTION - DEBT (NOTE 5)	\$ 61,925	\$ 59,252
CASH OVERDRAFT (NOTE 3)	35,554	38,896
ACCOUNTS PAYABLE	23,879	19,727
DUE TO MERCER SANITATION DISTRICT	10,862	-
CONTRACTORS PAYABLE	86,275	30,482
ACCRUED INTEREST	90,226	71,412
OTHER CURRENT LIABILITIES	<u>31,954</u>	<u>29,769</u>
 TOTAL CURRENT LIABILITIES	 340,675	 249,538
 LONG-TERM DEBT (NOTE 5)	 <u>3,229,095</u>	 <u>2,836,454</u>
 TOTAL LIABILITIES	 3,569,770	 3,085,992
<b>MEMBERS' EQUITY:</b>		
MEMBERSHIPS	649,928	644,528
CONTRIBUTIONS IN AID OF CONSTRUCTION	2,565,469	2,065,469
RETAINED DEFICIT	<u>(834,456)</u>	<u>(831,059)</u>
 TOTAL EQUITY	 <u>2,380,941</u>	 <u>1,878,938</u>
 TOTAL LIABILITIES & MEMBERS' EQUITY	 <u>\$ 5,950,711</u>	 <u>\$ 4,964,930</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2008)

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:		
WATER SALES	\$ 1,031,429	\$ 1,136,601
MANAGEMENT FEE INCOME	18,750	-
OTHER OPERATING REVENUE	<u>27,082</u>	<u>32,572</u>
 TOTAL OPERATING REVENUE	 1,077,261	 1,169,173
 OPERATING EXPENSES	 <u>778,042</u>	 <u>793,039</u>
 NET OPERATING INCOME BEFORE DEPRECIATION	 299,219	 376,134
 DEPRECIATION (NOTE 2)	 <u>200,099</u>	 <u>200,451</u>
 NET OPERATING INCOME	 99,120	 175,683
NON-OPERATING INCOME (EXPENSES):		
GAIN(LOSS) ON SALE OF ASSETS	400	-
SETTLEMENT INCOME - CITY OF DANVILLE	28,845	-
INTEREST INCOME	8,320	4,835
INTEREST EXPENSE	<u>(140,082)</u>	<u>(163,349)</u>
 TOTAL NON-OPERATING INCOME (EXPENSES)	 <u>(102,517)</u>	 <u>(158,514)</u>
 NET INCOME (LOSS)	 <u>\$ (3,397)</u>	 <u>\$ 17,169</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>MEMBERSHIPS</u>	<u>CONTRIBUTIONS IN AID OF CONSTRUCTION</u>	<u>RETAINED DEFICIT</u>	<u>TOTAL</u>
BALANCE AT JANUARY 1, 2008	\$ 626,595	\$ 2,065,469	\$ (848,228)	\$ 1,843,836
2008 NET LOSS	-	-	17,169	17,169
CAPITAL CONTRIBUTION- GOVERNMENT	-	-	-	-
MEMBERSHIPS	<u>17,933</u>	<u>-</u>	<u>-</u>	<u>17,933</u>
BALANCE AT DECEMBER 31, 2008	644,528	2,065,469	(831,059)	1,878,938
2009 NET INCOME	-	-	(3,397)	(3,397)
CAPITAL CONTRIBUTION- GOVERNMENT	-	500,000	-	500,000
MEMBERSHIPS	<u>5,400</u>	<u>-</u>	<u>-</u>	<u>5,400</u>
BALANCE AT DECEMBER 31, 2009	<u>\$ 649,928</u>	<u>\$ 2,565,469</u>	<u>\$ (834,456)</u>	<u>\$ 2,380,941</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.



LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2008)

	<u>2009</u>	<u>2008</u>
SOURCE OF SUPPLY EXPENSE:		
WATER PURCHASES	\$ 313,668	\$ 353,980
 TOTAL	 313,668	 353,980
TRANSMISSION & DISTRIBUTION EXPENSE:		
MAINTENANCE & REPAIRS	<u>36,824</u>	<u>25,517</u>
 TOTAL	 36,824	 25,517
CUSTOMER ACCOUNTS EXPENSE:		
UNCOLLECTIBLE ACCOUNTS	-	5,091
SUPPLIES & POSTAGE	<u>12,319</u>	<u>15,558</u>
 TOTAL	 12,319	 20,649
ADMINISTRATIVE & GENERAL:		
SALARIES	212,081	201,595
INSURANCE	27,049	29,827
MISCELLANEOUS GENERAL EXPENSE	63,331	56,028
TRANSPORTATION EXPENSE	13,251	15,477
PAYROLL TAXES	17,417	16,480
STAFF BENEFITS	46,491	43,746
LEGAL	6,440	2,946
AUDIT AND ACCOUNTING	4,910	4,785
COMMISSIONERS' FEES	18,000	18,000
ENGINEERING FEES	4,463	2,412
OTHER LICENSES AND TAXES	<u>1,798</u>	<u>1,597</u>
 TOTAL ADMINISTRATIVE & GENERAL	 <u>415,231</u>	 <u>392,893</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 778,042</u>	 <u>\$ 793,039</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2008)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	\$ (3,397)	\$ 17,169
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
DEPRECIATION	200,099	200,451
DECREASE (INCREASE) IN ACCOUNTS RECEIVABLE	(4,931)	(15,695)
INCREASE IN DUE FROM OTHER GOVERNMENT	(28,845)	-
DECREASE (INCREASE) IN INVENTORY	(3,222)	4,883
DECREASE (INCREASE) IN PREPAID EXPENSES	3,444	(2,758)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	4,152	7,147
INCREASE IN DUE TO SANITATION DISTRICT	10,862	-
INCREASE (DECREASE) IN CONTRACTORS PAYABLE	55,793	(1,901)
INCREASE (DECREASE) IN OTHER CURRENT LIABILITIES	2,185	(19,269)
INCREASE (DECREASE) IN ACCRUED INTEREST	18,814	1,111
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	254,954	191,138
CASH FLOWS FROM INVESTING ACTIVITIES		
ACQUISITION OF PROPERTY AND EQUIPMENT	(1,278,863)	(104,468)
NET CASH USED IN INVESTING ACTIVITIES	(1,278,863)	(104,468)
CASH FLOWS FROM FINANCING ACTIVITIES		
MEMBERSHIPS (TAP FEES)	5,400	17,933
CAPITAL CONTRIBUTIONS-GOVERNMENT	500,000	-
BORROWINGS OF INTERIM LOANS	992,501	-
REPAYMENTS OF NOTE PAYABLE	(546,505)	(9,083)
REPAYMENTS OF RD LOANS	(50,682)	(52,361)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	900,714	(43,511)
NET INCREASE (DECREASE) IN CASH	(123,195)	43,159
CASH AT BEGINNING OF YEAR	485,377	442,218
CASH AT END OF YEAR	\$ 362,182	\$ 485,377

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS:

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2009 AND 2008, THE ASSOCIATION PAID \$142,288 AND \$162,238 RESPECTIVELY, IN INTEREST COSTS. IN 2009, THE ASSOCIATION ALSO INCURRED \$21,368 IN INTEREST (NET OF INTEREST EARNED ON THE BORROWED FUNDS) RELATED TO INTERIM FINANCING. THIS INTEREST WAS CAPITALIZED IN THE FINANCIAL STATEMENTS.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

1. GENERAL

LAKE VILLAGE WATER ASSOCIATION, INC., (THE "ASSOCIATION") IS A NOT-FOR-PROFIT CORPORATION. THE ASSOCIATION PROVIDES WATER SERVICES TO THE RURAL SECTIONS OF BOYLE AND MERCER COUNTIES.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. THE ASSOCIATION USES THE ACCRUAL METHOD OF ACCOUNTING, AND ACCORDINGLY REFLECTS ALL SIGNIFICANT RECEIVABLES, PAYABLES, AND OTHER LIABILITIES. CERTAIN DISCLOSURES HAVE BEEN INCLUDED IN THIS REPORT TO CONFORM WITH RURAL DEVELOPMENT AGENCY (RD) REQUIREMENTS.
- B. FOR PURPOSES OF THE STATEMENT OF CASH FLOWS, THE ASSOCIATION CONSIDERS ALL HIGHLY LIQUID INVESTMENTS WITH AN INITIAL MATURITY OF THREE MONTHS OR LESS TO BE CASH EQUIVALENTS.
- C. MANAGEMENT USES ESTIMATES AND ASSUMPTIONS IN PREPARING FINANCIAL STATEMENTS. THOSE ESTIMATES AND ASSUMPTIONS AFFECT THE REPORTED AMOUNTS OF ASSETS AND LIABILITIES, THE DISCLOSURE OF CONTINGENT ASSETS AND LIABILITIES, AND THE REPORTED REVENUES AND EXPENSES. ACTUAL RESULTS COULD DIFFER FROM THOSE ESTIMATES.
- D. PROPERTY AND EQUIPMENT ARE STATED AT COST, AND ARE DEPRECIATED OVER THE ESTIMATED USEFUL LIFE OF THE ASSET USING THE STRAIGHT-LINE METHOD OF DEPRECIATION. TRANSMISSION LINES AND STANDPIPES ARE BEING DEPRECIATED OVER A 33 YEAR LIFE; OFFICE FURNITURE AND EQUIPMENT OVER A 5 TO 10 YEAR LIFE; BUILDINGS AND IMPROVEMENTS OVER A 20 YEAR LIFE.
- E. A STATUTORY MORTGAGE LIEN EXISTS ON THE UTILITY PLANT IN FAVOR OF THE RURAL DEVELOPMENT AGENCY (RD), WITH LOANS BEING COLLATERALIZED BY AND PAYABLE FROM GROSS REVENUES OF THE ASSOCIATION INCLUDING ALL ASSETS OF THE ASSOCIATION.
- F. MATERIAL INVENTORY IS STATED AT COST USING THE FIRST-IN, FIRST-OUT (FIFO) METHOD.
- G. PREPAID ITEMS INCLUDE PAYMENTS MADE TO VENDORS THAT WILL BENEFIT FUTURE PERIODS.
- H. RESTRICTED ASSETS REPRESENT CASH FOR WHICH USE IS LIMITED BY APPLICABLE LOAN COVENANTS.
- G. CERTAIN ACCOUNTS IN THE PRIOR-YEAR FINANCIAL STATEMENTS HAVE BEEN RECLASSIFIED FOR COMPARATIVE PURPOSES TO CONFORM TO THE PRESENTATION IN THE CURRENT-YEAR FINANCIAL STATEMENTS.

LAKE VILLAGE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

3. CASH

CASH IS COMPOSED OF THE FOLLOWING WITH RESTRICTION FOR USE NOTED:

		2009	2008
CASH ON HAND		\$ 50	\$ 50
CASH ON DEPOSIT-OPERATING ACCOUNT	A	(35,554)	(38,896)
CASH ON DEPOSIT-REVENUE ACCOUNT	B	17,410	152,319
CASH ON DEPOSIT-CUSTOMER DEPOSITS	C	10,063	9,265
SAVINGS ACCOUNTS:			
DEBT SERVICE ACCOUNT	D	194,791	144,685
DEPRECIATION ACCOUNT	E	138,732	75,923
RESERVE ACCOUNT	F	33,208	22,762
LAKE VILLAGE CONSTRUCTION ACCOUNT	G	3,482	119,269
TOTAL		<u>\$ 362,182</u>	<u>\$ 485,377</u>

THE ASSOCIATION MAINTAINS CASH IN ONE LOCAL BANK AND IS REQUIRED BY THE RURAL DEVELOPMENT LOAN AGREEMENT TO HAVE THE FINANCIAL INSTITUTIONS PLEDGE SECURITIES HAVING A CURRENT QUOTED MARKET VALUE AT LEAST EQUAL TO THE UNINSURED DEPOSITS. AT YEAR END, THE CARRYING AMOUNT OF THE ASSOCIATION'S CASH WAS \$362,132 AND THE BANK BALANCE WAS \$434,930. AT DECEMBER 31, 2009, ALL BANK BALANCES WERE COVERED BY FEDERAL DEPOSITORY INSURANCE, OR BY COLLATERAL HELD BY THE PLEDGING BANK'S TRUST DEPARTMENT ON BEHALF OF THE ASSOCIATION.

- (A) THE OPERATING AND MAINTENANCE ACCOUNT IS THE PRIMARY OPERATING ACCOUNT OF THE ASSOCIATION. IT IS FUNDED BY TRANSFERS FROM THE REVENUE ACCOUNT AND IS USED TO PAY ALL OPERATING EXPENSES OF THE ASSOCIATION. THE OPERATING ACCOUNT OPERATES ON AN IMPREST BASIS; THUS, THE OVERDRAFT IN THIS ACCOUNT REPRESENTS OUTSTANDING CHECKS AT YEAR-END.
- (B) THE REVENUE ACCOUNT, REQUIRED BY THE RD LOAN AGREEMENT, IS USED FOR THE DEPOSIT OF ALL FUNDS COLLECTED AND FOR THE DISBURSEMENT OF FUNDS TO THE PROPER BANK ACCOUNTS.
- (C) THE CUSTOMER DEPOSIT ACCOUNT IS USED TO HANDLE REQUIRED DEPOSITS BY NEW CUSTOMERS.
- (D) THE ASSOCIATION IS REQUIRED TO TRANSFER FUNDS MONTHLY TO THE DEBT SERVICE ACCOUNT TO MEET THE MONTHLY INSTALLMENTS FOR PRINCIPAL AND INTEREST ON THE RD LOANS OUTSTANDING.
- (E) THE DEPRECIATION ACCOUNT IS USED BY THE ASSOCIATION TO MAINTAIN EXCESS UNRESTRICTED FUNDS SO THAT THEY WILL EARN INTEREST.
- (F) THE ASSOCIATION IS REQUIRED TO TRANSFER FUNDS MONTHLY TO THE RESERVE ACCOUNT IN AMOUNTS SPECIFIED BY RURAL DEVELOPMENT. THE USE OF SUCH FUND IS RESTRICTED TO PAYING THE COST OF REPAIRING OR REPLACING, MAKING EXTENSIONS OR IMPROVEMENTS, OR WHEN NECESSARY FOR PAYMENT OF PRINCIPAL AND INTEREST.

LAKE VILLAGE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

(G) THIS ACCOUNT IS MAINTAINED BY THE ASSOCIATION TO ACCOUNT FOR THE CASH RECEIPTS AND DISBURSEMENTS RELATED TO CERTAIN WATER SYSTEM IMPROVEMENT PROJECTS UNDERTAKEN DURING THE YEAR.

4. PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT CONSISTS OF THE FOLLOWING AS OF DECEMBER 31:

	<u>2009</u>	<u>2008</u>
LAND	\$ 62,409	\$ 62,409
BUILDINGS & IMPROVEMENTS	42,324	42,324
SUPPLY MAINS	15,500	15,500
PUMP STATION	50,800	50,800
STANDPIPES & STORAGE TANKS	560,946	560,946
WATER LINES	5,429,725	5,429,725
CUSTOMER SERVICES	189,926	189,926
METERS	399,657	364,677
HYDRANTS	1,960	1,960
OFFICE FURNITURE	61,458	58,251
TRANSPORTATION EQUIPMENT	131,090	131,090
OTHER EQUIPMENT	41,908	58,219
OTHER TANGIBLE PLANT	220,435	131,934
CONSTRUCTION IN PROCESS	<u>1,252,737</u>	<u>102,445</u>
TOTAL	8,460,875	7,200,206
LESS: ACCUMULATED DEPRECIATION	<u>3,079,529</u>	<u>2,897,624</u>
PROPERTY AND EQUIPMENT, NET	<u>\$ 5,381,346</u>	<u>\$ 4,302,582</u>

5. LONG-TERM DEBT

A. LOAN 91-05

8.375% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENTS OF \$45,703, INCLUDING PRINCIPAL AND INTEREST. \$ 246,439

B. LOAN 91-06

5.50% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENTS OF \$52,206, INCLUDING PRINCIPAL AND INTEREST. 699,025

C. LOAN 91-07

5.375% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENTS OF \$21,484, INCLUDING PRINCIPAL AND INTEREST. 217,246

D. LOAN 91-08

5% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENTS OF \$16,839, INCLUDING PRINCIPAL AND INTEREST. 253,609

LAKE VILLAGE WATER ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2009

5. LONG-TERM DEBT (CONTINUED)

E. LOAN 91-09 4.5% PROMISSORY NOTE PAYABLE TO THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT IN ANNUAL INSTALLMENT OF \$48,038, INCLUDING PRINCIPAL AND INTEREST BEGINNING IN 2010. THE ASSOCIATION IS ONLY REQUIRED TO PAY INTEREST IN 2008 AND 2009.	882,201
F. NOTE PAYABLE – REGIONS BANK (INTERIM FINANCING) 3.70% FIXED RATE NOTE PAYABLE. INTEREST AND PRINCIPAL DUE UPON OBTAINING PERMANENT FINANCING FROM THE DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT (JANUARY 2010)	<u>992,500</u>
TOTAL OUTSTANDING DEBT	<u><u>\$3,291,020</u></u>

THE ABOVE NOTES ARE SECURED BY ALL PROPERTY AND EQUIPMENT OF THE ASSOCIATION.

A SCHEDULE OF MATURITIES ON THE ABOVE DEBT IS AS FOLLOWS:

YEAR ENDING DECEMBER 31	AMOUNT
2010	\$ 61,925
2011	65,968
2012	70,249
2013	92,795
2014	98,403
THEREAFTER	<u>2,901,680</u>
TOTAL	<u><u>\$ 3,291,020</u></u>

6. INCOME TAXES

DURING 1973, THE ASSOCIATION APPLIED FOR AND OBTAINED TAX EXEMPT STATUS FROM THE INTERNAL REVENUE SERVICE UNDER SECTION 501(C) (12) OF THE INTERNAL REVENUE CODE.

7. OTHER MATTERS

(A) THE ASSOCIATION HAS NOT BEEN ASSESSED OR PAID ANY PROPERTY, INTANGIBLE OR FRANCHISE TAX IN PRIOR YEARS. SINCE THERE IS SOME UNCERTAINTY ABOUT THE TAXABILITY OF A "WATER ASSOCIATION", THE FINANCIAL STATEMENTS DO NOT REFLECT ANY LIABILITY FOR UNPAID TAXES, IF ANY.

LAKE VILLAGE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

	2009	2008
(B) ACTIVE METER CUSTOMERS - DECEMBER 31,	2045	2040
 (C) WATER LOSS:		
WATER PURCHASES - GALLONS	187,865,357	186,386,683
WATER SOLD AND USED IN OPERATIONS	173,844,364	175,544,419
LINE LOSS	14,020,993	10,842,264
PERCENTAGE OF LINE LOSS	7.46%	5.82%

(D) ACCOUNTS RECEIVABLE AGING AT DECEMBER 31, 2009:

CURRENT	\$	90,664
30-59 DAYS		8,011
60-89 DAYS		4,236
OVER 90 DAYS		8,543
LESS: ALLOWANCE		(8,543)
NET ACCOUNTS RECEIVABLE	\$	102,911

ALL ACCOUNTS RECEIVABLE 90 DAYS AND OLDER HAVE BEEN INCLUDED IN THE ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS.

8. RISK MANAGEMENT

THE ASSOCIATION IS EXPOSED TO A VARIETY OF ACCIDENTAL LOSSES, AND HAS ATTEMPTED TO MINIMIZE ITS RISK BY CARRYING COMMERCIAL INSURANCE. THERE HAVE BEEN NO SIGNIFICANT REDUCTIONS IN COVERAGE FROM COVERAGE IN THE PRIOR YEAR.

9. CAPITAL PROJECTS PLANNED AND IN PROCESS

ON MARCH 3, 2009, THE ASSOCIATION WAS AWARDED A GRANT OF \$350,000 FROM THE KENTUCKY INFRASTRUCTURE AUTHORITY FOR THE PURPOSE OF CONSTRUCTING A 150,000 GALLON WATER TANK IN THE ADAMS LANE AREA OF MERCER COUNTY. AS OF DECEMBER 31, 2009, \$5,564 HAS BEEN SPENT IN RELATION TO THIS PROJECT.

10. U.S. DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT LOAN

ON JANUARY 12, 2010, THE ASSOCIATION RECEIVED A LOAN IN THE AMOUNT OF \$1.544 MILLION FROM RURAL DEVELOPMENT. UPON RECEIVING THE LOAN FUNDS, THE INTERIM LOAN WITH REGIONS BANK WAS PAID IN FULL IN THE AMOUNT OF \$1,013,868 WHICH INCLUDED PRINCIPAL AND ACCRUED INTEREST. THE REMAINING FUNDS WILL BE USED TO PAY THE REMAINDER OF THE PROJECT COSTS FOR CONTRACT #13.

LAKE VILLAGE WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

11. CONTRACT WITH MERCER COUNTY SANITATION DISTRICT

ON FEBRUARY 1, 2009, THE ASSOCIATION ENTERED INTO AN AGREEMENT WITH THE MERCER COUNTY SANITATION DISTRICT WHEREBY THE ASSOCIATION PROVIDES MANAGEMENT, SECRETARIAL, BILLING, BOOKKEEPING, BUDGETING, OFFICE SPACE, AND VARIOUS OTHER SERVICES TO THE SANITATION DISTRICT FOR AN ANNUAL FEE OF \$25,000 PAYABLE IN EQUAL MONTHLY INSTALLMENTS OF \$2,083.33. THE CONTRACT TERM IS FIVE YEARS AND IS CANCELABLE BY EITHER PARTY UPON 60 DAYS WRITTEN NOTICE.

12. SETTLEMENT WITH THE CITY OF DANVILLE

ON JUNE 1, 2009, THE ASSOCIATION AND THE CITY OF DANVILLE, KENTUCKY REACHED A SETTLEMENT RELATED TO A MATTER IN WHICH THE CITY OF DANVILLE HAD OVER-CHARGED THE ASSOCIATION FOR WHOLESALE WATER PURCHASES MADE IN 2005, 2006, AND 2007. THE AMOUNT OF THE SETTLEMENT IS \$28,845 AND IS SHOWN ON THE STATEMENT AS ASSETS, LIABILITIES, AND MEMBERS' EQUITY AS "DUE FROM OTHER GOVERNMENT". THE PUBLIC SERVICE COMMISSION IS CURRENTLY IN THE PROCESS OF REVIEWING THE SETTLEMENT AND THE REIMBURSEMENT TO THE ASSOCIATION IS EXPECTED TO BE MADE IN 2010.

13. RELATED PARTY TRANSACTIONS

DURING THE YEAR ENDED DECEMBER 31, 2009, THE ASSOCIATION PAID \$37,810 TO AN INDIVIDUAL WHO IS RELATED TO AN EMPLOYEE OF THE ASSOCIATION. THE SERVICES PERFORMED WERE IN CONJUNCTION WITH THE CONTRACT 13 PROJECT.



LAKE VILLAGE WATER ASSOCIATION, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2009

	<u>CFDA Number</u>	<u>Disbursements</u>
U.S. Department of Agriculture: Water & Waste Disposal Systems for Rural Communities	10.760	\$ 1,100,143

Notes to Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal loan activity of Lake Village Water Association, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

COMPLIANCE SECTION

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**INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

CHAIRMAN AND COMMISSIONERS  
LAKE VILLAGE WATER ASSOCIATION, INC.  
BURGIN, KENTUCKY 40310

I HAVE AUDITED THE FINANCIAL STATEMENTS OF THE LAKE VILLAGE WATER ASSOCIATION, INC. AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009, AND HAVE ISSUED MY REPORT THEREON DATED MARCH 22, 2010. I CONDUCTED MY AUDIT IN ACCORDANCE WITH AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, AND THE STANDARDS APPLICABLE TO FINANCIAL AUDITS CONTAINED IN *GOVERNMENT AUDITING STANDARDS*, ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES.

INTERNAL CONTROL OVER FINANCIAL REPORTING

IN PLANNING AND PERFORMING MY AUDIT, I CONSIDERED THE ASSOCIATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING AS A BASIS FOR DESIGNING MY AUDITING PROCEDURES FOR THE PURPOSE OF EXPRESSING MY OPINION ON THE FINANCIAL STATEMENTS, BUT NOT FOR THE PURPOSE OF EXPRESSING AN OPINION ON THE EFFECTIVENESS OF THE ASSOCIATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING. ACCORDINGLY, I DO NOT EXPRESS AN OPINION ON THE EFFECTIVENESS OF THE ASSOCIATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING.

MY CONSIDERATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING WAS FOR THE LIMITED PURPOSE DESCRIBED IN THE PRECEDING PARAGRAPH AND WOULD NOT NECESSARILY IDENTIFY ALL DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING THAT MIGHT BE SIGNIFICANT DEFICIENCIES OR MATERIAL WEAKNESSES. HOWEVER, AS DISCUSSED BELOW, I IDENTIFIED CERTAIN DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING THAT I CONSIDER TO BE SIGNIFICANT DEFICIENCIES.

A CONTROL DEFICIENCY EXISTS WHEN THE DESIGN OR OPERATION OF A CONTROL DOES NOT ALLOW MANAGEMENT OR EMPLOYEES, IN THE NORMAL COURSE OF PERFORMING THEIR ASSIGNED FUNCTIONS, TO PREVENT OR DETECT MISSTATEMENTS ON A TIMELY BASIS. A SIGNIFICANT DEFICIENCY IS A CONTROL DEFICIENCY, OR COMBINATION OF CONTROL DEFICIENCIES, THAT ADVERSELY AFFECTS THE ASSOCIATION'S ABILITY TO INITIATE, AUTHORIZE, RECORD, PROCESS, OR REPORT FINANCIAL DATA RELIABLY IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES SUCH THAT THERE IS MORE THAN A REMOTE LIKELIHOOD THAT A MISSTATEMENT OF THE

ASSOCIATION'S FINANCIAL STATEMENTS THAT IS MORE THAN INCONSEQUENTIAL WILL NOT BE PREVENTED OR DETECTED BY THE ASSOCIATION'S INTERNAL CONTROL. I CONSIDER THE DEFICIENCY DESCRIBED BELOW TO BE A SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING.

1. AS IS COMMON WITHIN THE SYSTEM OF INTERNAL CONTROL OF MOST SMALL ORGANIZATIONS, THE ACCOUNTING FUNCTION OF LAKE VILLAGE WATER ASSOCIATION, INC. DOES NOT PREPARE THE FINANCIAL STATEMENTS COMPLETE WITH FOOTNOTES IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA. ACCORDINGLY, THE ASSOCIATION HAS NOT ESTABLISHED INTERNAL CONTROLS OVER THE PREPARATION OF ITS FINANCIAL STATEMENTS. THIS CONDITION IS CONSIDERED TO BE A SIGNIFICANT DEFICIENCY IN THE ASSOCIATION'S SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING.

DURING THE COURSE OF PERFORMING AN AUDIT, IT IS NOT UNUSUAL FOR THE AUDITOR TO PREPARE VARIOUS JOURNAL ENTRIES TO PRESENT THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. THIS RELIANCE ON THE AUDITOR TO DETECT AND MAKE THESE NECESSARY ADJUSTMENTS IS CONSIDERED TO BE A SIGNIFICANT DEFICIENCY IN THE SYSTEM OF INTERNAL CONTROL. SAS NO. 112 DOES NOT MAKE EXCEPTIONS FOR REPORTING DEFICIENCIES THAT ARE ADEQUATELY MITIGATED WITH NON-AUDIT SERVICES RENDERED BY THE AUDITOR OR DEFICIENCIES FOR WHICH THE REMEDY WOULD BE COST PROHIBITIVE.

COMMUNICATION OF THE CONTROL DEFICIENCY ABOVE HELPS TO EMPHASIZE THAT THE RESPONSIBILITY FOR FINANCIAL REPORTING RESTS ENTIRELY WITH THE ORGANIZATION AND NOT THE AUDITOR. STATED ANOTHER WAY, IF AN ORGANIZATION IS UNABLE TO ISSUE, WITHOUT THE AUDITOR'S INVOLVEMENT, COMPLETE FINANCIAL STATEMENTS WITH FOOTNOTES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND FREE OF MATERIAL MISSTATEMENT, THAT INABILITY IS A SYMPTOM OF A SIGNIFICANT DEFICIENCY IN THE SYSTEM OF INTERNAL CONTROL.

#### MANAGEMENT'S RESPONSE

THE ASSOCIATION ENGAGES CONSULTANTS WHO POSSESS INDUSTRY KNOWLEDGE AND EXPERTISE TO PROVIDE FINANCIAL SERVICES, AS WELL AS LEGAL, ENGINEERING, AND OTHER PROFESSIONAL SERVICES. BASED ON THE AUDITOR'S UNQUALIFIED OPINION AND AFTER READING THE FINANCIAL STATEMENTS, MANAGEMENT BELIEVES THE FINANCIAL STATEMENTS TO BE MATERIALLY CORRECT. MANAGEMENT DOES NOT THINK THAT THE ADDITION OF AN EMPLOYEE OR CONSULTANT TO OVERSEE THE ANNUAL FINANCIAL REPORTING PROCESS IS NECESSARY NOR WOULD IT BE COST EFFECTIVE.

2. DURING THE PERFORMANCE OF THE AUDIT, IT WAS DISCOVERED THAT THE MERCER COUNTY SANITATION DISTRICT HAD BEEN OVERPAID APPROXIMATELY \$3,249 DUE TO VARIOUS COMPUTATION ERRORS MADE DURING THE YEAR. I RECOMMEND THAT CAREFUL ATTENTION BE PAID REGARDING THE AMOUNTS DUE TO THE SANITATION DISTRICT AND THAT THE COMPUTATION METHOD FOR PAYING THE SANITATION DISTRICT PROVIDED BY MY OFFICE BE USED EACH MONTH IN DETERMINING THE AMOUNT TO BE PAID.

MANAGEMENT'S RESPONSE

MANAGEMENT HAS DISCUSSED THIS ITEM WITH THE AUDITOR AND IS CONFIDENT THAT THE COMPUTATION ERRORS WILL BE RESOLVED GOING FORWARD.

A MATERIAL WEAKNESS IS A SIGNIFICANT DEFICIENCY, OR COMBINATION OF SIGNIFICANT DEFICIENCIES, THAT RESULTS IN MORE THAN A REMOTE LIKELIHOOD THAT A MATERIAL MISSTATEMENT OF THE FINANCIAL STATEMENTS WILL NOT BE PREVENTED OR DETECTED BY THE ASSOCIATION'S INTERNAL CONTROL.

MY CONSIDERATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING WAS FOR THE LIMITED PURPOSE DESCRIBED IN THE FIRST PARAGRAPH OF THIS SECTION AND WOULD NOT NECESSARILY IDENTIFY ALL DEFICIENCIES IN INTERNAL CONTROL THAT MIGHT BE SIGNIFICANT DEFICIENCIES AND, ACCORDINGLY WOULD NOT NECESSARILY DISCLOSE ALL SIGNIFICANT DEFICIENCIES THAT ARE ALSO MATERIAL WEAKNESSES. HOWEVER, I BELIEVE THE SIGNIFICANT DEFICIENCY DESCRIBED ABOVE IN ITEM #1 IS A MATERIAL WEAKNESS.

COMPLIANCE AND OTHER MATTERS

AS PART OF OBTAINING REASONABLE ASSURANCE ABOUT WHETHER THE ASSOCIATION'S FINANCIAL STATEMENTS ARE FREE OF MATERIAL MISSTATEMENT, I PERFORMED TESTS OF ITS COMPLIANCE WITH CERTAIN PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS, NONCOMPLIANCE WITH WHICH COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE DETERMINATION OF FINANCIAL STATEMENT AMOUNTS. HOWEVER, PROVIDING AN OPINION ON COMPLIANCE WITH THOSE PROVISIONS WAS NOT AN OBJECTIVE OF MY AUDIT, AND ACCORDINGLY, I DO NOT EXPRESS SUCH AN OPINION. THE RESULTS OF MY TESTS DISCLOSED NO INSTANCES OF NONCOMPLIANCE THAT ARE REQUIRED TO BE REPORTED UNDER *GOVERNMENT AUDITING STANDARDS*.

THIS REPORT IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THE CHAIRMAN, COMMISSIONERS, AND APPLICABLE REGULATORY AGENCIES, AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

*Craig A. Butler, CPA*

CRAIG A. BUTLER  
CERTIFIED PUBLIC ACCOUNTANT

DANVILLE, KENTUCKY  
MARCH 22, 2010

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

CHAIRMAN AND COMMISSIONERS  
LAKE VILLAGE WATER ASSOCIATION, INC.  
BURGIN, KENTUCKY

**COMPLIANCE**

I HAVE AUDITED THE COMPLIANCE OF THE LAKE VILLAGE WATER ASSOCIATION, INC. WITH THE TYPES OF COMPLIANCE REQUIREMENTS DESCRIBED IN THE U.S. OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133 COMPLIANCE SUPPLEMENT THAT ARE APPLICABLE TO ITS MAJOR FEDERAL PROGRAM FOR THE YEAR ENDED DECEMBER 31, 2009. THE ASSOCIATION'S MAJOR FEDERAL PROGRAM IS IDENTIFIED IN THE SUMMARY OF AUDITOR'S RESULTS SECTION OF THE ACCOMPANYING SCHEDULE OF FINDINGS AND QUESTIONED COSTS. COMPLIANCE WITH THE REQUIREMENTS OF LAWS, REGULATIONS, CONTRACTS AND GRANTS APPLICABLE TO EACH OF ITS MAJOR FEDERAL PROGRAMS IS THE RESPONSIBILITY OF THE ASSOCIATION'S MANAGEMENT. MY RESPONSIBILITY IS TO EXPRESS AN OPINION ON THE ASSOCIATION'S COMPLIANCE BASED ON MY AUDIT.

I CONDUCTED MY AUDIT OF COMPLIANCE IN ACCORDANCE WITH AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, THE STANDARDS APPLICABLE TO FINANCIAL AUDITS CONTAINED IN GOVERNMENT AUDITING STANDARDS, ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES, AND OMB CIRCULAR A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. THOSE STANDARDS AND OMB CIRCULAR A-133 REQUIRE THAT I PLAN AND PERFORM THE AUDIT TO OBTAIN REASONABLE ASSURANCE ABOUT WHETHER NONCOMPLIANCE WITH THE TYPES OF COMPLIANCE REQUIREMENTS REFERRED TO ABOVE THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON A MAJOR FEDERAL PROGRAM OCCURRED. AN AUDIT INCLUDES EXAMINING, ON A TEST BASIS, EVIDENCE ABOUT THE ASSOCIATION'S COMPLIANCE WITH THOSE REQUIREMENTS AND PERFORMING SUCH OTHER PROCEDURES AS I CONSIDERED NECESSARY IN THE CIRCUMSTANCES. I BELIEVE THAT MY AUDIT PROVIDES A REASONABLE BASIS FOR MY OPINION. MY AUDIT DOES NOT PROVIDE A LEGAL DETERMINATION ON THE ASSOCIATION'S COMPLIANCE WITH THOSE REQUIREMENTS.

IN MY OPINION, THE LAKE VILLAGE WATER ASSOCIATION, INC. COMPLIED, IN ALL MATERIAL RESPECTS, WITH THE REQUIREMENTS REFERRED TO ABOVE THAT ARE APPLICABLE TO ITS MAJOR FEDERAL PROGRAM FOR THE YEAR ENDED DECEMBER 31, 2009.

## INTERNAL CONTROL OVER COMPLIANCE

THE MANAGEMENT OF LAKE VILLAGE WATER ASSOCIATION, INC. IS RESPONSIBLE FOR ESTABLISHING AND MAINTAINING EFFECTIVE INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS OF LAWS, REGULATIONS, CONTRACTS AND GRANTS APPLICABLE TO FEDERAL PROGRAMS. IN PLANNING AND PERFORMING MY AUDIT, I CONSIDERED THE ASSOCIATION'S INTERNAL CONTROL OVER COMPLIANCE WITH THE REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON A MAJOR FEDERAL PROGRAM IN ORDER TO DETERMINE MY AUDITING PROCEDURES FOR THE PURPOSE OF EXPRESSING MY OPINION ON COMPLIANCE, BUT NOT FOR THE PURPOSE OF EXPRESSING AN OPINION ON THE EFFECTIVENESS OF INTERNAL CONTROL OVER COMPLIANCE. ACCORDINGLY, I DO NOT EXPRESS AN OPINION ON THE EFFECTIVENESS OF THE ASSOCIATION'S INTERNAL CONTROL OVER COMPLIANCE.

A *CONTROL DEFICIENCY* IN AN ENTITY'S INTERNAL CONTROL OVER COMPLIANCE EXISTS WHEN THE DESIGN OR OPERATION OF A CONTROL DOES NOT ALLOW MANAGEMENT OR EMPLOYEES, IN THE NORMAL COURSE OF PERFORMING THEIR ASSIGNED FUNCTIONS, TO PREVENT OR DETECT NONCOMPLIANCE WITH A TYPE OF COMPLIANCE REQUIREMENT OF A FEDERAL PROGRAM ON A TIMELY BASIS. A *SIGNIFICANT DEFICIENCY* IS A CONTROL DEFICIENCY, OR COMBINATION OF CONTROL DEFICIENCIES, THAT ADVERSELY AFFECTS THE ENTITY'S ABILITY TO ADMINISTER A FEDERAL PROGRAM SUCH THAT THERE IS MORE THAN A REMOTE LIKELIHOOD THAT NONCOMPLIANCE WITH A TYPE OF COMPLIANCE REQUIREMENT OF A FEDERAL PROGRAM THAT IS MORE THAN INCONSEQUENTIAL WILL NOT BE PREVENTED OR DETECTED BY THE ENTITY'S INTERNAL CONTROL.

A MATERIAL WEAKNESS IS A SIGNIFICANT DEFICIENCY, OR COMBINATION OF SIGNIFICANT DEFICIENCIES, THAT RESULTS IN MORE THAN A REMOTE LIKELIHOOD THAT MATERIAL NONCOMPLIANCE WITH A TYPE OF COMPLIANCE REQUIREMENT OF A FEDERAL PROGRAM WILL NOT BE PREVENTED OR DETECTED BY THE ENTITY'S INTERNAL CONTROL.

MY CONSIDERATION OF INTERNAL CONTROL OVER COMPLIANCE WAS FOR THE LIMITED PURPOSE DESCRIBED IN THE FIRST PARAGRAPH OF THIS SECTION AND WOULD NOT NECESSARILY IDENTIFY ALL DEFICIENCIES IN INTERNAL CONTROL THAT MIGHT BE SIGNIFICANT DEFICIENCIES OR MATERIAL WEAKNESSES. I DID NOT IDENTIFY ANY DEFICIENCIES IN INTERNAL CONTROL OVER COMPLIANCE THAT I CONSIDER TO BE MATERIAL WEAKNESSES, AS DEFINED ABOVE.

THIS REPORT IS INTENDED SOLELY FOR THE INFORMATION OF THE CHAIRMAN, COMMISSIONERS, AND REGULATORY AGENCIES AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

*Craig A. Butler, CPA*

CRAIG A. BUTLER  
CERTIFIED PUBLIC ACCOUNTANT

DANVILLE, KENTUCKY  
MARCH 22, 2010

**LAKE VILLAGE WATER ASSOCIATION, INC.**  
 Schedule of Findings and Questioned Costs  
 For the Year Ended December 31, 2009

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified are not considered to be material weakness(es)? No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

USDA, Rural Development Water & Waste Disposal Systems  
 For Rural Communities Loan Program

Dollar threshold used to distinguish Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? No



**LAKE VILLAGE WATER ASSOCIATION, INC.**  
Schedule of Findings and Questioned Costs-continued  
For the Year Ended December 31, 2009

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**Section II – Financial Statement Findings**

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See Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* on pages 16-18.

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**Section III – Federal Award Findings and Questioned Costs**

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No matters were reported.

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**Section IV – Prior Year Audit Findings**

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There were no prior year audit findings.